UNITED
NATIONS

A

General Assembly

Distr.
GENERAL

A/AC.96/963/Add.1
17 September 2002

Original: ENGLISH

EXECUTIVE COMMITTEE OF THE
HIGH COMMISSIONER'S PROGRAMME

Fifty-third session

REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY ON THE ACCOUNTS OF THE VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES FOR THE PERIOD ENDED 31 DECEMBER 2001

Addendum 1 - Measures taken or proposed in response to the recommendations in the Report of the Board of Auditors to the General Assembly on the Accounts of the Voluntary Funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2001

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I. INTRODUCTION

1. In accordance with paragraph 10 of General Assembly resolution 47/211 of 23 December 1992, the following is a report on measures taken or to be taken by UNHCR in response to the main recommendations of the Board of Auditors, as set out in paragraph 13 of their Report (A/AC.96/963). Unless otherwise indicated, all references appearing below relate to the aforementioned Report. This document also deals with previous recommendations not fully implemented, as detailed in paragraph 10 of the Report as well as the other recommendations mentioned in its paragraph 14.

United Nations System Accounting standards

II. RECOMMENDATION 13 (a)

2. Modify its accounting policy and financial system on expenditure in order to comply with United Nations System Accounting Standards through an accurate accounting of disbursements and valid unliquidated obligations (para. 38);

Measures Taken by the Administration

3. UNHCR notes and agrees with the recommendation. UNHCR further informs the Board of Auditors that, with the implementation of the Management Systems Renewal Project (MSRP) planned for 2003/2004, the appropriate expenditure recognition policy and recording practices will be set, in accordance with United Nations System Accounting Standards.

Implementing partner expenditure

III. RECOMMENDATION 13 (b)

4. Assess the feasibility and cost-effectiveness of modifying the rules on the control of implementing partners expenditure, with a view to obtaining audit certificates covering the financial reports submitted by the international NGOs and Governmental partners; monitor corrective action taken by Field Offices in case of audit certificates with qualification or major findings and document the follow-up; consider the establishment of a comprehensive database on local audit resources history and results to facilitate audit monitoring and risk-assessment (para. 63 and 73);

Measures Taken by the Administration

5. The auditors' recommendation has been duly noted. Since 1997, UNHCR and its partners have invested considerable financial and human resources in order to produce on time the required audit certificates, and marked progress has already been achieved. Nevertheless, UNHCR continues its efforts to obtain the audit certificates as early as possible after the final date for liquidation of obligations. UNHCR is currently, with the assistance of the UNHCR Audit Service and the Office of Internal Oversight Services (OIOS), analyzing the feasibility and cost-effectiveness of requesting independent Sub-project Monitoring Report (SPMR) certification and management letters for international NGOs and governmental partners. In addition, UNHCR with the assistance of OIOS is also reviewing the current procedures on the monitoring

of audit certificates received from implementing partners, and is analyzing the possibility of creating a comprehensive database on local audit resources history and results. During the first quarter of 2003 a proposal on the changes of the policy relating to Audit certificates of implementing partners will be presented to UNHCR's senior management.

Cash management

IV. RECOMMENDATION 13 (c)

6. Manage exchange rate risks by adopting a more proactive, hedging stance (para. 78);

Measures Taken by the Administration

7. UNHCR is consulting other United Nations agencies on their experience with hedging exchange risks, particularly in cases when the dates of future transactions are not determined. In parallel, UNHCR is seeking specialist advice from banks.

V. RECOMMENDATION 13 (d)

8. Set and regularly update a comprehensive database in respect of bank services, based on written agreements, and launch a competitive bidding for all headquarters bank accounts in order to obtain the best condition and services (para. 80);

Measures Taken by the Administration

9. UNHCR has completed a review of the contractual services provided for all headquarters bank accounts, including an update of applicable general terms and conditions of banks. UNHCR has launched a competitive bidding for headquarters bank accounts in the European Monetary Union.

Information systems

VI. RECOMMENDATION 13 (e)

10. Address the current functionality deficiencies and define a clear development strategy needs for its Financial Management Information System (FMIS), factoring in the technological delays that have built up with FMIS developments over the last few years, and the decisions that will be taken to restart the ISP or a similar project and its provisional roll-out date. The Board further recommends that, as long as FMIS produces the accounts, a risk estimation procedure be implemented (para. 88);

Measures Taken by the Administration

11. UNHCR takes note of the recommendation. It should be noted that the FMIS Stakeholders met a number of times during 2001 and the first semester of 2002 to discuss the functionality, risk and shortcomings of the FMIS system. Between May and June 2002, various scenarios, costs and benefits were reviewed in relation to the time-frame for the intended restart of the ISP. As a result, an upgrade of the FMIS field system to current technological

standards and requirements of the Windows environment is envisaged. This upgrade will stabilize the system and lead to better data integrity especially in the field. The FMIS team is now in the process of finalising the software modifications and a pilot is planned for September 2002. Further steps will be considered in the context of the implementation of the MSRP (Management Systems Renewal Project), as decided in July 2002, and taking into account the availability of resources.

VII. RECOMMENDATION 13 (f)

12. Consult with the United Nations Secretariat and other relevant United Nations entities to ensure that in terms of cost-benefit the present diversity of information systems approaches is in the best interest of Member States and of the beneficiaries of United Nations programmes; ascertain that there are no ready-made solutions, even at the cost of alterations in current UNHCR procedures, preferably within the United Nations system (para. 100).

Measures Taken by the Administration

13. The recommendation has been duly noted. Having undergone an extensive software evaluation and procurement process, UNHCR stands behind the choice of PeopleSoft as the Enterprise Resource Planning (ERP) package that best fits the needs of the organization. UNHCR is in discussion with both UNDP and IFAD, both of whom are PeopleSoft clients, to determine areas in which inter-agency collaborative efforts are feasible.

Previous recommendations not fully implemented

VIII. RECOMMENDATION 10 (a)

14. Make the preparation of work plans an integral part of the project-planning and monitoring process (1995, 1996, 1998 and 1999);

Measures Taken by the Administration

15. As mentioned by the Auditors, the production of a guide for use of workplans when preparing projects and sub-projects has not been finalized within the initially foreseen time-frame, due to operational and staffing constraints. However, UNHCR has prepared a first draft of a mini-guide on the use of workplans. The draft makes reference to the instructions in Chapter IV regarding the use of workplans, and to the *Practical UNHCR Guide on Objective-setting*, which includes the setting of milestones, objectives, outputs and indicators. It also sets out when the use of a workplan is required, and is therefore consistent with the current content of Chapter IV. It is anticipated that, by autumn 2002, a final draft of the mini-guide will be ready for issuance.

IX. RECOMMENDATION 10 (b)

16. Ensure complete and accurate disclosure of non-expendable property and conduct physical stock checks on a regular basis (1996, 1997, 1998 and 1999).

Measures Taken by the Administration

17. UNHCR takes note of the recommendation. It should be noted that responsibility for the Asset Management function was moved to the Supplies and Transport Section in April 2001 for integration within the supply chain concept adopted by UNHCR. UNHCR strengthened the function at Headquarters with the creation of a P4 post of Head of Asset Management Unit, which was filled in October 2001. A comprehensive plan of action has been elaborated. This includes: revisions to the authority and procedures for Asset Management Boards; initiation of an internal asset market through a newly designed Web browser; enhancements to the AssetTrak database to support the revisions; and production and promulgation of procedures as part of the Supply Chain project. In addition, many supporting documents and systems are to be revised and clarified with the aim of improving results prior to the end of 2002.

Other Recommendations

X. RECOMMENDATION Para 17

18. The Board recommends that (i) should the General Assembly wish to pursue the matter, it should request UNHCR to perform a detailed review and cost-estimate of the modifications implied by a biennial cycle; (ii) UNHCR should, regardless of the outcome, examine the cost of taking into account in its new information system the possibility of biennial cycles.

Measures Taken by the Administration

19. UNHCR is currently examining the implications of biennium cycles regarding planning, funding and budget. The possibility of biennial cycles will also be taken into account in the new Management Systems Renewal Project information system (MSRP)planned for 2003/2004.

XI. RECOMMENDATION Para 21

20. The Board recommends that: (i) UNHCR formally state the scope of "administrative expenditure"; (ii) the UNHCR statute be eventually amended should the planned phased increases from the United Nations Regular budget not be sufficient to fund UNHCR administrative expenditure.

Measures Taken by the Administration

21. By way of clarification, it should be noted that the current UN Regular Budget contribution was increased by 5.1 per cent ($ 2 million) for the biennium 2002-2003, "with subsequent increases to be considered in the context of proposals for subsequent bienniums" (A/56/6 (Sect 23), paragraph 23.19). It will be recalled that UNHCR now has three categories of posts, namely management and administration (MA), programme support (PS) and programme posts (P). Management and administration posts are found only at headquarters; programme support posts at both headquarters and in the field; and programme posts only in the field. In the 2003 proposed UNHCR budget, management and administration costs amount to $ 58.1 million. As document A/56/6(Sect 23), paragraph 23.19 stated: "The management and administration

category was found to be consistent with the type of posts (non-operational) now funded by the regular budget." UNHCR's objective is to move to the full funding of this category of posts under the United Nations Regular Budget.

22. As regards the proposed review of the Statute, it will be recalled that recently a *Declaration of States Parties to the 1951 Convention and/or its 1967 Protocol relating to the Status of Refugees* was organized jointly by Switzerland and UNHCR to commemorate the Convention's 50th anniversary. In an environment where the Convention has come under increasing attack, this Declaration is a major step forward in that it has reaffirmed the commitment of States to the Convention and to its proper and full application. Given the intimate link between the Convention and the Statute in the definition of a refugee and the competence of the High Commissioner, it is not felt, at this time, that the Statute should be revisited to look merely at the financing of the administrative expenses of the Office.

XII. RECOMMENDATION Para 29

23. The Board recommended, and UNHCR agreed, to adopt a consistent policy with regard to the number of staff members to be taken into account for calculation of termination liabilities.

Measures Taken by the Administration

24. UNHCR confirms that it will exclusively use the latest available official staffing figures from its database to determine the number of staff for calculation of termination liabilities.

XIII. RECOMMENDATION Para 31

25. The Board recommends that UNHCR, in conjunction with United Nations Headquarters, review the funding mechanism and targets for end-of-service liabilities in line with other United Nations organizations.

Measures Taken by the Administration

26. Following a request of the ACABQ the UN Secretariat is preparing a report on the long-term implications and impact of the growth in the liability of the organization for after-health insurance benefits that will be submitted to the General Assembly at its fifty-seventh session.

XIV. RECOMMENDATION Para 41

27. The Board recommends that, whenever a party is held responsible for losses of cash, receivable and property and asked to refund the Organization, UNHCR promptly record the related amounts on an accrual basis to improve control and accountability.

Measures Taken by the Administration

28. The recommendation has already been implemented. In June 2002, instructions were sent to all Heads of Field Offices, to record miscellaneous receivables and the corresponding miscellaneous income upon receipt of Asset Management Board decisions regarding cases where staff members or

Implementing Partners are held responsible for the impairment/loss of assets and are asked to refund the organization. In addition, the same instructions are being included in the forthcoming IOM/FOM on Asset Management Boards, now being finalized by the Asset Management Unit/Supply Management Section. Specifically, Case Report and Recommendation forms containing decisions on such cases will indicate the accounting entries that should be made in this respect.

XV. RECOMMENDATION Para 53

29. The Board recommends that UNHCR verify without further delays the expenditure reported by the Governmental partners.

Measures Taken by the Administration

30. Further to discussions held between UNHCR and the governmental partner, the latter agreed to open its accounts for review. Verification of expenditures reported by the governmental partners should be completed before the end of the year.

XVI. RECOMMENDATION Para 56

31. The Board encourages UNHCR to continue its efforts in verifying SPMRs effectively.

Measures Taken by the Administration

32. UNHCR takes note of the recommendation. As mentioned by the Board UNHCR has, in April 2002, amended the financial part of the Sub-project Monitoring Report (SPMR) format to incorporate additional fields whereby partners are to disclose separately any income received (e.g. interest earned). The new format also includes additional lines that provide more extensive explanations on the certification by the implementing partner and the extent of the verification made by UNHCR (completeness, compliance and accuracy with the sub-agreement). In addition, the new guidance for the verification and acceptance of SPMRs, which was issued in December 2001, will show its impact in the course of 2002, and is expected to result in more effective financial monitoring.

XVII. RECOMMENDATION Para 66

33. The Board recommends that UNHCR: (i) with the assistance of the Office of Internal Oversight Services, define the requirements for government audits and the resulting audit certificates and provide guidance, as has been done for local non-governmental organizations; (ii) when a public Audit Institution is not available, invite Governments to engage private audit firms selected to perform the audit of government-implemented sub-projects; (iii) include in its guidelines specific procedures and pre-determined criteria to ensure that the local external auditors are of the required independence, integrity and technical competence, and are appropriately monitored when they come from the private sector, and that they are provided with adequate audit terms of reference.

Measures Taken by the Administration

34. UNHCR, with the assistance of the Office of Internal Oversight Services, is currently reviewing and analysing the whole process of audit certificates for implementing partners as mentioned in the reply to recommendation 13 (b). It is planned to propose a revised policy to senior management during the first quarter of 2003. However, it should be noted that, in the case of some governmental partners, the audit of governmental accounts is not carried out systematically on a yearly basis. Indeed, many countries have a policy of auditing their institutions every two years and on a random basis, and therefore UNHCR projects may not be included in the general government audit, but require a separate project audit by the government institution. This audit will normally have lower priority than the mandatory audit of the State's accounts. Furthermore, since the government audit institution is not remunerated by UNHCR for providing audit certificates, possibilities for changing priorities or speeding up the audit process are very limited.

35. UNHCR is considering the option of including in the sub-agreement a provision, allowing that a private sector audit firm contracted by UNHCR in consultation with the government may audit the government-implemented project, when a governmental audit institution cannot undertake the work, in order to guarantee the independence and timeliness of the audit. UNHCR is reviewing potential cost implications and governments' acceptance of audits performed by private sector audit firms. UNHCR has already established guidelines for hiring the services of local external auditors (UNHCR Manual, Chapter 4, Annex 8.8). With the assistance of the Office of Internal Oversight Services, UNHCR will review and amend these guidelines, as required, for the audit of government-implemented projects.

XVIII. RECOMMENDATION Para 68

36. The Board recommends that UNHCR request implementing partners to budget and disclose the resources allocated for certification in all cases and to develop guidelines for an effective monitoring of audit resources.

Measures Taken by the Administration

37. UNHCR takes note of the recommendation. As previously mentioned in the reply to recommendation 13 (b) and 66, UNHCR, with the assistance of the Office of Internal Oversight Services, is currently reviewing and analysing the whole process of audit certificates for implementing partners. The proposed revised policy relating to audit certificates of implementing partners, which will be presented to senior management during the first quarter of 2003, will also consider the various aspects of an effective monitoring of audit resources.

XIX. RECOMMENDATION Para 71

38. While acknowledging that in some circumstances audits cannot be performed, the Board notes with concern the lack of improvement over 1998 and recommends that UNHCR enforce deadlines for submission of audit certificates.

Measures Taken by the Administration

39. The recommendation has been duly noted. As already mentioned in the replies to recommendation 13 (b) and 66, UNHCR, with the assistance of the Office of Internal Oversight Services, is reviewing and analyzing the current procedures related to audit certificates from implementing partners. It is hoped that the proposed changes will improve the submission of audit certificates received from implementing partners both in terms of time and quality.

40. While UNHCR agrees with the Board that there is a need to enforce deadlines for submission of audit certificates, the current level of compliance of audit certificates received by implementing partners is as follows:

1998	⇒ 79% of which	64%	Government Implementing Partners
		93%	International NGOs
		65%	Local NGOs
1999	⇒ 84% of which	74%	Government Implementing Partners
		95%	International NGOs
		66%	Local NGOs
2000	⇒ 74% of which	74%	Government Implementing Partners
		87%	International NGOs
		52%	Local NGOs

XX. RECOMMENDATION Para 82

41. The Board recommends that UNHCR continue its efforts to streamline and optimize the management of its field office banking operations.

Measures Taken by the Administration

42. UNHCR is reviewing all banking operations in the field with significant bank charges and without corresponding interest income.

XXI. RECOMMENDATION Para 84

43. The Board recommends that UNHCR ensure that all bank signatories are UNHCR staff, designated in compliance with its rules.

Measures Taken by the Administration

44. UNHCR has reviewed and updated the lists of bank signatories.

XXII. RECOMMENDATION Para 90

45. The Board recommends that UNHCR (i) allocate the human and budgetary resources required to maintain the current system; and (ii) separate the support, maintenance, development and production tracking functions to ensure that the reliability of accounting and financial data.

Measures Taken by the Administration

46. UNHCR recognises the importance of separating support and development functions. However, it is felt that due to current budgetary restrictions as well as the upcoming systems replacement, UNHCR should dedicate its scarce resources to ensuring timely implementation of the new systems, rather than investing additional resources in maintaining legacy systems. UNHCR will address the separation of development and support functions as part of the structure that will be put into place both during the implementation of the new systems and in the post-implementation phase.

XXIII. RECOMMENDATION Para 94

47. The Board recommends that UNHCR should negotiate a discount on hardware and maintenance services until the project has resumed; and update the inventory of the skills acquired through the training courses, in order to optimize in due time any resumption of such trainings.

Measures Taken by the Administration

48. Since February 2002, senior management commissioned three initiatives to address areas of concern that occasioned the suspension of the ISP in June 2001. After reviewing the results of the three studies, and carefully weighing up the potential cost and the risks of alternative solutions, senior management made a decision in July 2002 to continue the project. With the project re-starting, the hardware and software purchased in previous phases of the project that are still under maintenance, are now being utilized. The inventory of skills for staff members still on the project will be updated accordingly. As part of the project plan, a training strategy for new project team members will be developed.